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FOR**

CITY OF MCLOUD, OKLAHOMA

FINANCIAL STATEMENTS

JUNE 30, 2013

**LANGLEY & LITTLEFIELD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
PRYOR, OKLAHOMA**

**CITY OF MCLOUD
TABLE OF CONTENTS
FINANCIAL STATEMENTS
JUNE 30, 2013**

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Statement of Net Position	10
Statement of Activities	11
Balance Sheet, Governmental Funds	12
Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Funds	13
Statement of Net Position, Proprietary Funds	14
Statement of Revenues, Expenditures and Changes in Net Position , Proprietary Funds	15
Statement of Cash Flows, Proprietary Funds	16
Notes to the Financial Statement	17
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	25

LANGLEY & LITTLEFIELD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of McLoud
McLoud, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of McLoud, State Oklahoma as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of McLoud's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of McLoud, State of Oklahoma, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of McLoud, State of Oklahoma's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



LANGLEY & LITTLEFIELD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
PRYOR, OKLAHOMA

August 19, 2014

**CITY OF MCLOUD, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
JUNE 30, 2013**

FISCAL YEAR ENDING JUNE 30, 2013

Our discussion and analysis of the City of McCloud's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

The total net position of the City increased \$131,210. Net Position of governmental activities increased 4.3% over the fiscal year.

General revenues accounted for \$948,536 or 68.1% of total governmental activities revenue. Program specific revenues accounted for \$443,899 or 31.9% of total governmental activities revenue.

Governmental activities capital assets, net-increased \$351,874. Business-type activities capital assets decreased \$195,841, primarily due to depreciation.

The City had \$1,580,883 in expenses related to governmental activities: \$443,899 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$1,136,984 were partially offset by general revenues (primarily tax revenues, reimbursements, and investment earnings) of \$948,536.

Net position for the business-type activities, which are made up of the Public Works Authority decreased over the fiscal year by \$271,627 or 15.8%.

Using the Financial Statements in the Annual Report

This report consists of a series of financial statements. The financial statements presented herein include all of the activities of the City of McCloud, the McCloud Public Works Authority, and other component units. The Statement of Net Position and Statement of Activities provide information about the activities of the City as a whole, including the Authority and component units. Included in this report are governmental-wide statements for each of two categories of activities, governmental and business-type.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information as well as other supplementary information.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety (fire and police), streets, municipal court, parks and recreation, public improvements, library and planning and zoning. the business-type activities of the City include public works (water, sewer, and garbage).

Fund Financial Statements -A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City can be divided into three categories - governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financing decision. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for all four funds. .

The City adopts an annual appropriated budget for its General Fund and Special Revenue Funds.

Proprietary Funds - The City maintains two different types of proprietary funds. Enterprises funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and garbage. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. Because services accounted for in internal service funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide statements, only in more detail. The Proprietary Fund Financial Statements provide separate information for the McCloud Public Works Authority, since it is considered to be a major fund of the City.

Notes to the Financial Statements -The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons.

Other Information - The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information.

Governmental-wide Financial Analysis

The government-wide financial statements include the Statement of Net Position. The Statement of Net Position presents information on all of the City of McLoud's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indication of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety (fire and police), streets, municipal court, parks and recreation, public improvements, planning and zoning, and library. The business-type activities of the City include public works (water, sewer, and garbage).

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of McLoud, assets exceeded liabilities by \$3,119,041 as of June 30, 2013.

A large portion of the City's net position (73.1%) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

TABLE 1
CITY OF MCLOUD, OKLAHOMA
SUMMARY OF NET POSITION
JUNE 30, 2013 and 2012

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 535,257	\$ 447,220	\$ 472,769	\$ 731,772	\$ 1,008,026	\$ 1,178,992
Capital assets	<u>1,232,637</u>	<u>880,763</u>	<u>5,348,870</u>	<u>5,544,711</u>	<u>6,581,507</u>	<u>6,425,474</u>
Total assets	<u>1,767,894</u>	<u>1,327,983</u>	<u>5,821,639</u>	<u>6,276,483</u>	<u>7,589,533</u>	<u>7,604,466</u>
Liabilities	(98,419)	(61,345)	(4,372,073)	(4,555,290)	(4,470,492)	(4,616,635)
Net position	<u>\$ 1,669,475</u>	<u>\$ 1,266,638</u>	<u>\$ 1,449,566</u>	<u>\$ 1,721,193</u>	<u>\$ 3,119,041</u>	<u>\$ 2,987,831</u>

Analysis of the City's Operations - The following table provides a summary of the city's operations for the year ended June 30, 2013. Governmental activities increased the City of McCloud's net position by \$402,837. Business-type activities decreased the City's net position by \$271,627.

TABLE 2
CITY OF MCLOUD, OKLAHOMA
CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Program revenues			
Charges for services	\$ 395,238	\$ 1,023,170	\$ 1,418,408
Capital grants & contributions	48,661	301,979	350,640
General revenues:			
Sales taxes	750,170	--	750,170
Franchise & other taxes	198,345	--	198,345
Other general expenses	<u>591,306</u>	<u>(591,266)</u>	<u>40</u>
Total revenues	<u>1,983,720</u>	<u>733,883</u>	<u>2,717,603</u>
Expenses			
General government	335,104	16,180	351,284
Public safety	823,690	--	823,690
Street & maintenance	257,878	--	257,878
Cultural, recreation & library	164,211	--	164,211
Utilities	--	950,847	950,847
Economic development	<u>--</u>	<u>38,483</u>	<u>38,483</u>
Total expenses	<u>1,580,883</u>	<u>1,005,510</u>	<u>2,586,393</u>
Increase in net position	<u>\$ 402,837</u>	<u>\$(271,627)</u>	<u>\$ 131,210</u>

2012 results are not being shown, as several beginning assets, liabilities and retained earnings balances were restated. This signifies that the 2102 Statement of Activity was incorrect, but the amount and classification of these errors was not determined; thus, only the 2013 summary is presented.

Financial Analysis of the Government's Funds

Governmental Funds - The focus of the City of McLoud's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of McLoud's governmental funds reported combined ending fund balances of \$442,088.

Proprietary Funds - The City's Proprietary Fund Statements provide the same type of information found in the government-wide financial statements, but in more detail.

Capital Assets

The City of McLoud's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts of \$6,581,507 (net of accumulated depreciation). This investment in capital assets includes building, equipment, improvements, infrastructure and construction in progress.

Debt Administration

The Town owes \$5,250 on a leased copier at June 30, 2013.

At the end of the current fiscal year, the McLoud Public Works Authority had total notes payable of \$4,277,790. \$4,275,165 of the debt is secured solely by utility revenue. The other \$2,625 is secured by a leased copier.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact A Kay Heinz, City Clerk, P. O. Box 300, McLoud, Oklahoma 74851 or call (405) 964-5264.

CITY OF MCLLOUD, OKLAHOMA
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash in Bank - Unrestricted	\$ 192,219	\$ 324,349	\$ 516,568
Cash in Bank - Restricted	142,260	56,843	199,103
Taxes and utility billing receivables	<u>200,778</u>	<u>91,577</u>	<u>292,355</u>
Total current assets	<u>535,257</u>	<u>472,769</u>	<u>1,008,026</u>
Noncurrent assets:			
Capital assets (net)	<u>1,232,637</u>	<u>5,348,870</u>	<u>6,581,507</u>
Total noncurrent assets	<u>1,232,637</u>	<u>5,348,870</u>	<u>6,581,507</u>
Total assets	<u>1,767,894</u>	<u>5,821,639</u>	<u>7,589,533</u>
LIABILITIES			
Current liabilities			
Accounts payable	36,358	39,103	75,461
Meter deposits	--	46,741	46,741
Accrued expenses	56,811	8,439	65,250
Current portion long term debt	<u>3,456</u>	<u>229,412</u>	<u>232,868</u>
Total current liabilities	<u>96,625</u>	<u>323,695</u>	<u>420,320</u>
Notes payable	<u>1,794</u>	<u>4,048,378</u>	<u>4,050,172</u>
Total long term liabilities	<u>1,794</u>	<u>4,048,378</u>	<u>4,050,172</u>
Total liabilities	<u>98,419</u>	<u>4,372,073</u>	<u>4,470,492</u>
NET POSITION			
Invested in capital assets, net of related debt	1,227,387	1,071,080	2,298,467
Restricted	142,260	56,843	199,103
Unrestricted	<u>299,828</u>	<u>378,486</u>	<u>621,471</u>
Total net position	<u>1,669,475</u>	<u>1,449,566</u>	<u>3,119,041</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,767,894</u>	<u>\$ 5,821,639</u>	<u>\$ 7,589,533</u>

**CITY OF MCLOUD, OKLAHOMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING JUNE 30, 2013**

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Charges for Services	Capital Grants	Primary Government		Total
				Governmental Activities	Business-type Activities	
Primary Government						
Governmental activities						
Administrative Department	\$165,139	\$44,533	\$ --	(\$120,606)	\$ --	(\$120,606)
Town Clerk	169,965	22,195		(147,770)		(147,770)
Police Department	612,300	203,537	43,176	(365,587)		(365,587)
Fire Department	211,390	2,630	5,485	(203,275)		(203,275)
General Maintenance	34,833	9,498		(25,335)		(25,335)
Street and Alley	223,045	6,453		(216,592)		(216,592)
Park Department	52,673	5,250		(47,423)		(47,423)
Lake	105,378	100,732		(4,646)		(4,646)
Cemetery	6,160	410		(5,750)		(5,750)
Total Governmental Activities	1,580,883	395,238	48,661	(1,136,984)	--	(1,136,984)
Business-Type Activities						
Water Department	257,286	481,584			224,298	224,298
Sewer Department	480,005	256,243			(223,762)	(223,762)
Garbage Department	213,556	258,471			44,915	44,915
General and Administrative	16,180	10,372			(5,808)	(5,808)
Economic Development	38,483	16,500	301,979		279,996	279,996
Total Business-Type Activities	1,005,510	1,023,170	301,979	--	319,639	319,639
Total Primary Government	2,586,393	1,418,408	350,640	(1,136,984)	319,639	(817,345)
General Revenues						
Sales Taxes				750,170		750,170
Other Taxes				106,484		106,484
Franchise Fees				91,861		91,861
Interest Income				21	19	40
Total General Government Revenue				948,536	19	948,555
Transfer In/Out				591,285	(591,285)	
Change in Net Position				402,837	(271,627)	131,210
Net Position Beginning				1,266,638	1,721,193	2,987,831
Net Position Ending				\$1,669,475	\$1,449,566	\$3,119,041

**CITY OF MCLOUD, OKLAHOMA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General Fund</u>	<u>Street & Alley Fund</u>	<u>Cemetery Fund</u>	<u>Capital Improvement Fund</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash in Bank - Unrestricted	\$ 49,279	\$ 114,751	\$ 1,689	\$ 26,500	\$ 192,219
Cash - Restricted	142,260	--	--	--	142,260
Taxes receivable	<u>155,995</u>	<u>44,783</u>	<u>--</u>	<u>--</u>	<u>200,778</u>
Total Assets	<u>\$ 347,534</u>	<u>\$ 159,534</u>	<u>\$ 1,689</u>	<u>\$ 26,500</u>	<u>\$ 535,257</u>
LIABILITIES					
Accounts payable	25,514	10,844	--	--	36,358
Accrued compensated absences	<u>54,609</u>	<u>2,202</u>	<u>--</u>	<u>--</u>	<u>56,811</u>
Total Liabilities	<u>80,123</u>	<u>13,046</u>	<u>--</u>	<u>--</u>	<u>93,169</u>
FUND BALANCES					
Unassigned	125,151	--	--	--	125,151
Assigned	<u>142,260</u>	<u>146,488</u>	<u>1,689</u>	<u>26,500</u>	<u>316,937</u>
Total Fund Balance	<u>267,411</u>	<u>146,488</u>	<u>1,689</u>	<u>26,500</u>	<u>442,088</u>
Total Liabilities and Fund Balance	<u>\$ 347,534</u>	<u>\$ 159,534</u>	<u>\$ 1,689</u>	<u>\$ 26,500</u>	<u>\$ 535,257</u>

Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities

Total Governmental Fund Balances	\$ 442,088
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Long term payables used to purchase capital assets	(5,250)
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	<u>1,232,637</u>
Net Position of Governmental Activities	<u>\$ 1,669,475</u>

CITY OF MCLOUD, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General <u>Fund</u>	Street & Alley <u>Fund</u>	Cemetery <u>Fund</u>	Capital Improvement <u>Fund</u>	Total Governmental <u>Funds</u>
Revenues					
Taxes	\$ 585,386	\$ 271,268	\$ --	\$ --	\$ 856,654
Lake Services Revenue	100,732	--	--	--	100,732
Fines	203,537	--	--	--	203,537
Grants and Donations	48,661	--	--	--	48,661
Interest	20	--	--	1	21
Franchise Fees	91,861	--	--	--	91,861
Permits and Licenses	22,195	--	--	--	22,195
Other Revenues	<u>52,413</u>	<u>6,453</u>	<u>410</u>	<u>9,498</u>	<u>68,774</u>
Total Revenues	<u>1,104,805</u>	<u>277,721</u>	<u>410</u>	<u>9,499</u>	<u>1,392,435</u>
Expenditures					
Administrative Department	117,087	--	--	--	117,087
Town Clerk	169,965	--	--	--	169,965
Police Department	585,322	--	--	--	585,322
Fire Department	177,017	--	--	--	177,017
General Maintenance	26,933	--	--	7,900	34,833
Parks Department	52,593	--	--	--	52,593
Cemetery	--	--	6,160	--	6,160
Lake	105,378	--	--	--	105,378
Street and Alley	--	216,700	--	--	216,700
Lease payments	3,640	--	--	--	3,640
Capital Outlay	<u>28,933</u>	<u>438,417</u>	<u>--</u>	<u>--</u>	<u>467,350</u>
Total Expenditures	<u>1,266,868</u>	<u>655,117</u>	<u>6,160</u>	<u>7,900</u>	<u>1,936,045</u>
Excess revenues over (under) expenditures	(162,063)	(377,396)	(5,750)	1,599	(543,610)
Transfers In/Out	<u>170,000</u>	<u>430,670</u>	<u>--</u>	<u>(9,385)</u>	<u>591,285</u>
Excess revenues over (under) expenditures after transfer	7,937	53,274	(5,750)	(7,786)	47,675
Fund balances at beginning of year	<u>259,474</u>	<u>93,214</u>	<u>7,439</u>	<u>34,286</u>	<u>394,413</u>
Fund balances at end of year	<u>\$ 267,411</u>	<u>\$ 146,488</u>	<u>\$ 1,689</u>	<u>\$ 26,500</u>	<u>\$ 442,088</u>

Reconciliation of Fund Financial Statements to Governmental Wide Financial Statements

Change in Fund Balances, Fund Financial Statements	\$ 47,675
Write off of undepreciated cost of disposed assets	(10,624)
Depreciation recorded in the Governmental Wide Financial Statements but not recorded in the Fund Financial Statements	(104,852)
Principal payments shown as reduction of debt on Fund Financial Statements	3,288
Expenses recorded in the Fund Financial Statements but capitalized in the Governmental Wide Financial Statements	<u>467,350</u>
Change in net position per the Governmental Wide financial Statements	<u>\$ 402,837</u>

CITY OF MCLOUD, OKLAHOMA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	<u>McCloud Public Works Authority</u>	<u>McCloud Economic Development Authority</u>	<u>Total Proprietary Funds</u>
ASSETS			
Current Assets:			
Cash in bank - unrestricted	\$ 172,258	\$ 152,091	\$ 324,349
Cash in bank - restricted	56,843	--	56,843
Taxes and utility billing receivables	<u>91,577</u>	<u>--</u>	<u>91,577</u>
Total current assets	<u>320,678</u>	<u>152,091</u>	<u>472,769</u>
Noncurrent assets			
Capital assets, net	<u>4,836,598</u>	<u>512,272</u>	<u>5,348,870</u>
Total noncurrent assets	<u>4,836,598</u>	<u>512,272</u>	<u>5,348,870</u>
Total assets	<u>\$ 5,157,276</u>	<u>\$ 664,363</u>	<u>\$ 5,821,639</u>
LIABILITIES			
Current Liabilities			
Accounts payable	39,103	--	39,103
Meter deposits	46,741	--	46,741
Note payable	229,412	--	229,412
Compensated absences	<u>8,439</u>	<u>--</u>	<u>8,439</u>
Total current liabilities	<u>323,695</u>	<u>--</u>	<u>323,695</u>
Long term liabilities			
Note payable	<u>4,048,378</u>	<u>--</u>	<u>4,048,378</u>
Total long term liabilities	<u>4,048,378</u>	<u>--</u>	<u>4,048,378</u>
Total liabilities	<u>4,372,073</u>	<u>--</u>	<u>4,372,073</u>
NET POSITION			
Invested in capital assets, net of related debt	558,808	512,272	1,071,080
Restricted	56,843	--	56,843
Unrestricted	<u>169,552</u>	<u>152,091</u>	<u>321,643</u>
Total net position	<u>785,203</u>	<u>664,363</u>	<u>1,449,566</u>

CITY OF MCLOUD, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	McLoud Public Works Authority	McLoud Economic Development Authority	Total Proprietary Funds
Operating Revenues			
Water sales	\$ 481,584	\$ --	\$ 481,584
Sewer fees	256,243	--	256,243
Garbage fees	258,471	--	258,471
Grants	--	301,979	301,979
Miscellaneous revenues	<u>10,372</u>	<u>16,500</u>	<u>26,872</u>
Total operating revenues	<u>1,006,670</u>	<u>318,479</u>	<u>1,325,149</u>
Operating Expenses			
Personal services	139,970	--	139,970
Operation and maintenance	261,104	--	261,104
Trash service	213,556	--	213,556
Depreciation	213,021	31,802	244,823
Interest	139,376	--	139,376
Economic development	<u>--</u>	<u>6,681</u>	<u>6,681</u>
Total operating expenses	<u>967,027</u>	<u>38,483</u>	<u>1,005,510</u>
Excess revenues over operating expenses	39,643	279,996	319,639
Nonoperating Revenues (Expenses)			
Transfer in (out)	(140,615)	(450,670)	(591,285)
Interest income	<u>13</u>	<u>6</u>	<u>19</u>
Net nonoperating revenues (expenses)	(140,602)	(450,664)	(591,266)
Excess revenues over (under) (expenses)	(100,959)	(170,668)	(271,627)
Net position at beginning of year	<u>886,162</u>	<u>835,031</u>	<u>1,721,193</u>
Net position at end of year	<u>\$ 785,203</u>	<u>\$ 664,363</u>	<u>\$ 1,449,566</u>

CITY OF MCLOUD, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	McCloud Public Works Authority	McCloud Economic Development Authority	Total Proprietary Funds
Cash flows from operating activities			
Receipts from customers	\$ 1,027,419	\$ 16,500	\$ 1,043,919
Grants received	--	301,979	301,979
Interest income	13	6	19
Transfers to other funds	(140,615)	(450,670)	(591,285)
Payments to employees	(140,499)	--	(140,499)
Payments to suppliers	<u>(582,206)</u>	<u>(6,949)</u>	<u>(589,155)</u>
Net cash provided by operating activities	<u>164,112</u>	<u>(139,134)</u>	<u>24,978</u>
Purchase of capital assets	<u>(48,982)</u>	<u>--</u>	<u>(48,982)</u>
Cash flows from capital and related financing activities			
Change in meter deposits	7,518	--	7,518
Payments on long term debt	<u>(221,769)</u>	<u>--</u>	<u>(221,769)</u>
Net cash flows from capital and related financing activities	<u>(214,251)</u>	<u>--</u>	<u>(214,251)</u>
Net increase (decrease) in cash	(99,121)	(139,134)	(238,255)
Cash, beginning of year	<u>328,222</u>	<u>291,225</u>	<u>619,447</u>
Cash, end of year	<u>\$ 229,101</u>	<u>\$ 152,091</u>	<u>\$ 381,192</u>
<i>Reconciliation of Fund Financial Statements to Governmental Wide Financial Statements</i>			
Change in net position	\$(100,959)	\$(170,668)	\$(271,627)
Adjustments to reconcile change in net position to net cash provided			
Depreciation	213,021	31,802	244,823
(Increase) decrease in utility receivable	20,748	--	20,748
Increase (decrease) in compensated absences (529)	--	(529)
Increase (decrease) in accounts payable	<u>31,831</u>	<u>(268)</u>	<u>31,563</u>
Net cash provided by operating activities	<u>\$ 164,112</u>	<u>\$(139,134)</u>	<u>\$ 24,978</u>
Cash reconciliation			
Cash in bank - unrestricted	\$ 172,258	\$ 152,091	\$ 324,349
Cash in bank - restricted	<u>56,843</u>	<u>--</u>	<u>56,843</u>
Total cash	<u>\$ 229,101</u>	<u>\$ 152,091</u>	<u>\$ 381,192</u>

CITY OF MCLOUD, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Mcloud, Oklahoma is a statutory Council-Manager City Government under Oklahoma Statutes. The City provides the following services: public safety, streets and highways, sanitation, public improvements, utilities and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the City's operations include how the budget is adopted, whether debt is secured by general obligation of the City, the City's duty to cover any deficits that may occur and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the City's reporting entity. As of June 30, 2013, the City had only two component units, the Mcloud Public Works Authority and the Mcloud Economic Development Authority.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City's funds are grouped into two governmental funds types, general funds and special revenue funds. Proprietary funds include enterprise funds. As of June 30, 2013, the City had governmental funds of general, street and alley fund, cemetery fund, and a capital improvement fund. The proprietary funds consisted of the Mcloud Public Works Authority and Mcloud Economic Development Authority.

Basis of Accounting

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the

proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect and the program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental and enterprises fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non major funds are aggregated and presented in a single column.

Governmental Funds

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within one month of year end and available to pay obligations of the current period). This includes investment earnings, income taxes withheld by employers, estate taxes, fines and forfeitures and state-levied locally shared taxes (including motor vehicle fees). Reimbursement due for federally funded projects is accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Other revenues, including licenses and permits, certain charges for services and miscellaneous income are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decrease in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

PROPRIETARY FUNDS

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocation of costs, such as depreciation, are recorded in proprietary funds. The proprietary funds use standards issued by the Financial Accounting Standard Board whenever possible. If no FASB pronouncement is applicable then Government Accounting Standards Board pronouncements are used. Operating revenues are defined as cash flows derived from the sales of water, sewer and garbage services or as a benefit to the economic development activity.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Restricted cash consists of meter deposits.

Infrastructure

In accordance with GASB 34, the City of McCloud is not required to retroactively record infrastructure assets. Infrastructure assets will be recorded and depreciated in the future.

Transfers

Transfers between funds are made with the approval of the City Council for smooth financial operation of the city and to allocate resources where needed.

Budget

In accordance with Oklahoma Statutes, Title 68, Section 3002, the City Council formally adopts annual budgets which include substantially all funds. These annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

Risk Management

Significant losses are covered by commercial insurance for all City operations.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

The accounts of the City are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The City of McLoud is considered a separate entity from the McLoud public Works Authority for FDIC deposit insurance.

In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name (referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name (referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name (referred to as category 3)

All of the City of McLoud's government and enterprise fund cash and investment accounts would be considered as category 1 up to its IC limits of \$250,000 for the governmental funds and \$250,000 for the McLoud Public Works Authority and \$250,000 for the McLoud Economic Development Authority. The remaining funds would be category 3.

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Funds</u>				
Infrastructure	\$ 29,006	\$ 430,669	\$ --	\$ 459,675
Land and buildings	1,682,759	3,448	--	1,686,207
Fixtures & equipment	<u>1,774,700</u>	<u>33,233</u>	<u>(10,990)</u>	<u>1,796,943</u>
Total	<u>3,486,465</u>			<u>3,942,825</u>
Accumulated depreciation	<u>(2,605,702)</u>	<u>(104,852)</u>	<u>366</u>	<u>(2,710,188)</u>
Net assets	<u>\$ 880,763</u>			<u>\$ 1,232,637</u>
<u>Enterprise Funds</u>				
Land and buildings	753,981	--	--	753,981
Waste Water Treatment Plant	6,802,671	10,612	--	6,813,283
Fixtures & equipment	<u>152,084</u>	<u>38,370</u>	<u>--</u>	<u>190,454</u>
Total	<u>7,708,736</u>			<u>7,757,718</u>
Accumulated depreciation	<u>(2,164,025)</u>	<u>(244,823)</u>	<u>--</u>	<u>(2,408,848)</u>
Net assets	<u>\$ 5,544,711</u>			<u>\$ 5,348,870</u>

As of June 2013, the governmental and proprietary funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost. Depreciation is \$213,021 for the McLoud PWA and \$31,802 for the McLoud EDA.

Depreciation of the governmental funds was recorded as follows: General Government \$47,700, Police Department \$16,354, Fire Department \$34,373, \$6,345 for Street, and \$80 for Park.

NOTE 4 - NOTES PAYABLE

McLoud Public Works Authority

During the year ending June 30, 2006, the McLoud Public Works Authority entered into an agreement with the Oklahoma Water Resources Board for a line of credit of \$5,315,000. The obligation carries an interest rate of 3.1 percent annually. Interest and principal is to be paid semiannually starting one year after the completion of the project which occurred on September 15, 2008. The obligation is to be paid off on March 15, 2028.

The PWA paid \$221,769 in principal and \$116,924 in interest on this obligation for the year ending June 30, 2013. The PWA also makes lease payments of \$151,67 on a copier dated December 29, 2011. The balance as of June 30, 2013 is \$2,425. Principal and interest required to amortize these obligations are as follows:

	<u>Principal</u>	<u>Interest</u>
2013/2014	229,412	132,715
2014/2015	235,188	125,442
2015/2016	241,395	118,326
2016/2017	249,360	110,361
2017/2018	257,259	102,462
2022/2027	1,413,570	385,034
2027/2028	<u>1,651,606</u>	<u>146,410</u>
	<u>\$4,277,790</u>	<u>\$1,120,750</u>
Balance, beginning of year		\$ 4,499,559
Principal paid		<u>(221,769)</u>
Balance, end of year		<u>\$ 4,277,790</u>

NOTE 5 - VOLUNTEER FIREFIGHTER PENSION PLAN

The City participates in the Oklahoma State Firefighters Pension and Retirement System, which is a defined contribution plan applying only the City's volunteer firefighters. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. Contributions are made by the City at the rate of \$60 per volunteer firefighter per year. The total contribution for 2012/2013 was \$1,260 and covered 21 volunteers.

NOTE 6 - DEFINED BENEFIT PENSION PLAN

Plan Description: The City of McLoud contributes to the Oklahoma Municipal Retirement Fund (the Fund), a cost-sharing multiple employer defined benefit pension plan administered by the Trust Department of BankOne of Oklahoma City. The Fund provides retirement, death and disability benefits to plan members who are regular full-time employees of participating municipalities, except for employees covered under other retirement plans. The authority to establish and amend benefit provisions to the Fund rests with the Fund's Board of Directors. The Oklahoma Municipal Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund, including 10 year historical information. That report may be obtained from the Fund administrator, Nation's Bank Trust Department.

Funding Policy

Plan employers are required to contribute 5.27% of gross monthly salary and employees 2.25% of gross salary. These rates are actuarially determined. These rates may be amended by the Fund's Board of Directors. The City's contributions to the Fund for the year ending June 30, 2013 were \$20,928.

The employees' portion was \$8,935. Total covered payroll was \$397,111. These amounts were equal to the required contributions.

The City also participates in the firefighters' pension fund. The City contributes 13% to the fund for each employee and the employee matches this at the rate of 8%. The employer's contribution for the year ending June 30, 2013 was \$8,634 and the employees' portion was \$ 5,313. Covered payroll was \$66,413.

NOTE 7 - PRIOR PERIOD ADJUSTMENT

During the audit, it was noted that the beginning balances of certain accounts were incorrect. As such, beginning balances were restated to reflect proper balances.

	<u>Governmental</u>	<u>Business-Type</u>
Net Position, per prior audit	\$ 1,150,942	\$ 1,716,695
Taxes receivable	51,878	--
Fixed asset adjustment	37,801	9,365
Note payable	(8,537)	(4,268)
Other book to audit adjustment	<u>34,554</u>	<u>--</u>
Beginning net position, current audit	<u>\$ 1,266,638</u>	<u>\$ 1,721,792</u>

NOTE 8 - SUBSEQUENT EVENTS

The City of McLoud is subject to pending litigation regarding an action in the nature of an inverse condemnation alleging that the City improperly displaced a solid waste disposal business in 2010 when it awarded a contract to another business. Council believes that the case, set for trial in September, 2014, should find for the City if the matter is tried, and believes that a loss is unlikely to occur.

LANGLEY & LITTLEFIELD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To The Honorable Mayor, City Manager, and City Councilors
City of McLoud
McLoud, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of McLoud for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of McLoud's basic financial statements and have issued our report thereon dated August 19, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered City of McLoud, State of Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of McLoud, State of Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of City of McLoud, State of Oklahoma's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether City of McLoud, State of Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Langley & Littlefield, PLLC".

LANGLEY & LITTLEFIELD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
PRYOR, OKLAHOMA

AUGUST 19, 2014